

TRADING FOR EVERYONE



Simple skills for an easy start

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Introduction

Today stock markets offer ample profit opportunities, and trading on these markets is one of the fastest ways to prosperity. The risks, however, are just as high as potential profits. Although if trade losses were that much greater than the profits, we would not see so many active and successful traders.

Some people come to the stock exchange to fulfil their dreams of becoming overnight millionaires. We have all heard real life stories like these.

Still, it is important to understand that only 5% of traders really catch that luck.

The other 95% never see astronomical profits.

However, the good news is that their efforts are still not in vain. Failure to earn a million in a day is neither a fiasco, nor a cause for disappointment. Lots of people never make a fortune. However, they do secure a stable monthly bonus for their paycheck for the rest of their lives!

They do not manage millions of dollars, but they maintain a respectable financial level that affords them a mortgage-free apartment and travel vacations three times a year.

Does not sounds too bad, right? And that is just how well a moderately active trader can do by trading several days a week. That is the level available to anyone who is willing to pick up trading.

The entry barrier is very low — no specialized education is required, and you do not have to kick off with a massive starting capital. Trading is for people from all walks of life. For most of them it is just a lucrative hobby. To get started, you will have to familiarize yourself with some basics — understanding the way the market operates, and how the trades are made.

As your knowledge expands, you will be able to improve your trading results.

In this book you will discover the basics of starting trades, market monitoring, and searching for the most profitable conditions. So, read on and explore the new financial opportunities!

Trading methods

First, you will have to pick the stock exchange where you will start trading. Your options are:

- foreign exchange, where various currency pairs are traded.

- stock exchange — a platform for operations with stocks, obligations, and other securities.
- commodity exchange is a place where you can trade in goods and raw materials, including oil and gold.
- derivative markets, where futures, options and other financial instruments are traded.

Each of those options has its own unique features, pros and cons. Choose the one that is right for your starting deposit volume and the goals you aim to reach.

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However, trade on all these platforms follows the same basic principles. You should learn them before you start trading. Let's review them one by one.

There are three main trading methods:

1. Scalping and day trading
2. Medium-term trading
3. Long-term trading

Beginner traders often flock to the day trade. From psychological perspective, it is no wonder why: beginners always want to make a quick buck.

That is the reason why so many beginners immerse themselves in indicators, day forecasts, and trading within shorter timeframes.

Let us now review each type of trade:

- When scalping, choose pairs with a smaller spread for trading. Spread is the difference between the best purchase price and the current price of the asset at a specific moment.

Highly volatile assets can also bring in a big score. Volatility is a range where the price on a specific asset oscillates over a specific period of time (day, month, week, year). Volatility is what allows you to make a profit when the market turns.

When scalping, it is necessary to schedule around the times of publication of important macroeconomic indicators or reports of representatives and heads of central banks.

- Day trading implies opening and closing a position within a single trading day. It's applicable to most intraday timeframes. This tactic is different from scalping — oscillations of take profit and stop losses are much bigger. What does it mean?

Traders commonly employ stop orders when they trade. You can set stop orders to open and close deals. Stop loss and take profit are two important algorithms for closing trades.

Stop loss reduces your losses. It closes the trade automatically when an asset reaches a certain price-point where it is no longer profitable to the trader. It's a good defence against the course that jolts the wrong way.

Take profit, in turn, fixes profit at a certain level. Take profit is a direct order for the platform to close a trade automatically when a certain price is reached and a predetermined amount of profit is thus secured.

This kind of order helps a trader to fix the profit volume and cut losses, ensuring stability of the trade result.

Working with stop orders should be considered the main principle of effective money management. They allow a trader to secure an expectedly good result without checking trades manually every hour.

For day trading, it is recommended to schedule around the time of news releases and change of trading sessions. The same applies when American traders start their operations — specifically, time when Europe is still trading, and America has already started.

This method is favoured by novices and professionals alike. Closing all positions within a single trading day has obvious advantages for beginners.

That's how one protects themselves from risks of overnight situation changes and incurring losses. Further acquaintance with classic market analysis methods will help you simulate an overall market picture over longer periods.

- Medium-term trading implies being in an open trading position for one to several days, or even a month. This approach takes the elder timeframes into consideration. These are timeframes of four hours or more.

This method has a distinct advantage: adjustable ratio of mathematical expectation of profit to potential risks.

This method has a much higher profit potential than day trading. When you do midterm trading, you can participate in trade movement, which is what you cannot do with day trading. Medium-term trading allows you to sit out the news release in an open position, protect a portion of the profit, and then add to an already open position during a trend movement. Combined, all these things increase trading efficiency.

- Long-term trading is rarely used in foreign exchange market; it is more suitable for stock market. However, if a trader understands inter-market relationships and can use fundamental analysis,

the strategy will be useful to them in currency market as well. In this type of trading, trades last from several months up to a year. When using this method, swap size for the yet-to-be-opened positions should be taken into account. Let us see what it means.

Any transaction of purchase and sale is accompanied by a corresponding resale or repurchase. At the same time, a stake is placed on increase in exchange rate of the main currency and a decrease in quoted one. The same applies to stocks and other financial instruments.

The size of that stake is called a swap. In long-term trading, this indicator should be determined in advance in order to assess the possible profitability of a transaction before opening a position.

From a psychological perspective, trading over prolonged time intervals is less stressful to a trader. This also eliminates the need to frequently use a terminal. This makes trader's work calmer and more comfortable, but the deposit should have a decent margin of safety for this tactic to work adequately. When trading in the long term, you can get into a prolonged drawdown — a position may take a long time to form.

The main thing to decide is how you will behave in the market and manage your position. You should do that before you start trading for large amounts.

Trading plan

The main thing to decide is how you will behave in the market and manage your position. You should do that before you start trading for large amounts.

Here are a few parameters that every trading plan should have:

- List of trading instruments.
- Money management parameters.
(stop loss, take profit, lot size, margin to main deposit ratio, spread and swap sizes)
- Trade parameters based on trade type.
(operational timeframe, time in position)
- Trade entry parameters.
- Principles of managing a trade in the moment, position exiting rules, selected trading session.

Pay close attention to trade management in the moment. This is tied to exiting from a position.

You can exit an open position in several ways:

- by closing the deal manually;
- when your take profit is triggered
- when loss has triggered your stop loss
- you are still in the black, but your stop loss is triggered.

Whenever you start a trade, you should already know how you will behave when you are in a position. You should know in advance all stop and take parameters, and whether trailing stop will be necessary.

Trailing stop is an algorithm controlling the stop loss order. In layman's terms, it is a sliding stop loss.

It is located at a certain distance from the asset's rate and moves with it if market moves in the direction you need.

Here's how trailing stop works:

- If profit for an open position has not exceeded trailing stop value, do not take any action.
- When profit for an open position exceeds trailing stop value, send an order to the server to place a stop loss order at trailing stop distance from the current price.
- When receiving a quote at the distance from the set stop loss exceeding the trailing stop value, send an order to the server to change the level of this order to relocate it at the trailing stop value

distance from the current price.

Before entering a position, you need to decide whether we will trail the stop along with the price, thus protecting a part of the profit, or use a trailing stop.

Managing the capital

Many novice traders often have an overconfidence problem. They trade without setting stop orders. Some people say that you do not have to set a stop loss. Why fix the loss if the price will eventually roll back, and you will be able to return to zero anyway?

However, practice demonstrates that trading without stops always entails a partial or full loss of funds. Learn to cut your losses while letting your profits grow.

In addition to eating up funds, a prolonged drawdown may cause a serious psychological problem.

We believe that the potential profit to potential loss ratio should hang around 3/1. Sometimes we can go as high as 10/1 on a specific day, which depends on the way we opened that period. But what about that comfortable prospect of getting to net zero? However, practice demonstrates that trading without stops always entails a partial or full loss of funds.

Learn to cut your losses while letting your profits grow.

If we risk 50 points for a profit of 150 points, there is a 70% chance that we will fail, but we will still retain our original amount.

When you lose, however, you gain valuable information on how to improve your trading system, because this loss means that your current algorithm is inefficient. You can correct your strategy and achieve a better financial result.

Market entry principles

Defining the trend

To make a stable profit in the market, you need to adhere to an old and simple rule of technical analysis — trade with the trend. There are some techniques for different vectors of trading that do not depend on overall picture.

However, here we will focus on rules that will secure a stable profit and preserve the deposit.

Now, before we open a trade, we have to figure out the trend of your chosen currency pair.

The trend is a steady progression in price along the same vector.

There are three main movement vectors:

- **Bull trend:** price is growing
- **Bear trend:** price of the currency is dropping
- **Flat, or a sideways trend.** Price movement cannot be unambiguously determined in that position.

Important: a distinct trend meets the following conditions.

See Figure 1.

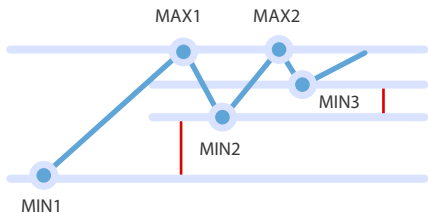


Figure 1

In a trend, each subsequent maximum and minimum should be a technically sound trade entry point. For instance, the chart in Figure 1 is not a trend. In this case, MAX2 is not above the MAX1, which means that starting buying at MIN3 would be a mistake.

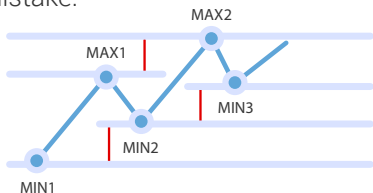


Figure 2

A classic scheme of an upwards trend is shown in Figure 2. All succeeding MIN and MAX points are above the respective preceding points.

In this case, it is recommended to start buying at MIN 3.

Bull trend

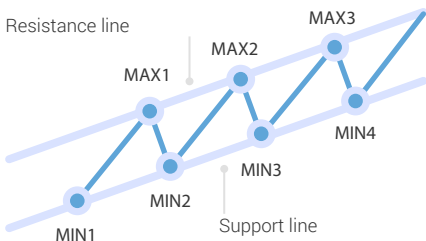


Figure 3

This type of price progression is defined by each maximum and minimum of the price being higher than the previous one, which is a classic definition of an uptrend.

Bear trend

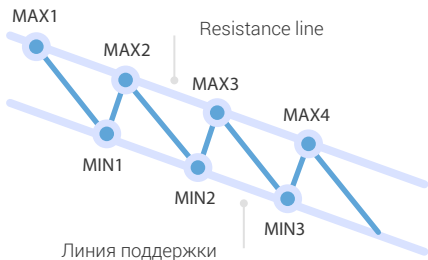


Figure 4

This figure shows a schematic example of a downtrend, where each maximum and minimum of the price is lower than the previous one.

Flat, or a sideways trend

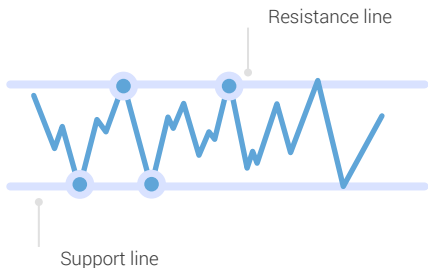


Figure 5

In this case, it is difficult to identify any clear trend. If a trend is difficult to define, you are most likely facing a “sideways trend”. Sometimes it is also called a price consolidation period.

“Sideways trends” appear when the market is ready to turn. More often than not, they manifest as a short pause in the ongoing trend. The trend may resume after a period of sideways motion.

In a rising (bullish) trend, only purchases are made, and in a bearish trend, only sales are made.

Trend trading is one of the most profitable strategies. Even if you rush into a deal, the trend will eventually pull you back into the black.

Position opening point

A novice trader has to learn an important timing skill that will help him/her enter the market at the right time.

Sometimes the amount of knowledge is so big, it needs to be filtered. You have to be in the right head-space when entering the market,

otherwise you risk losing control and suffering losses.

To avoid that, you have to look for and recognize signals that indicate a good time to open a position. What exactly will be the reason to open a position depends on the trade type and market analysis method. However, trade opening principles should be identical. Ideally, you should have a universal approach.

Important:

If you have two entry conditions fully formed, and the third is just about to form, you should postpone the trade.

It is obvious at first glance, but in practice we tend to pass something for a fact when it is not a fact.

An optimal entry point can be found using support lines and resistance lines. Experienced traders recommend adhering to these two principles:

Principle one:



Connect the candlestick shadows with each other. Our objective here is to create a trend line by connecting price maximums and price minimums. To do that, you have to draw the lines through the candlestick shadows or wicks.

Once you have made sure that each subsequent maximum and minimum supercedes the previous one, you have an uptrend.

Connect MIN1 and MIN2 points, and you will have a **support line**.

Open the purchase at the point where the price chart and support line intersect.

Draw a resistance line in a similar fashion by connecting price maximums.

The figure below demonstrates the way you should draw resistance lines and support lines for a down-trend. For this type of price movement, the resistance line will be the main one.

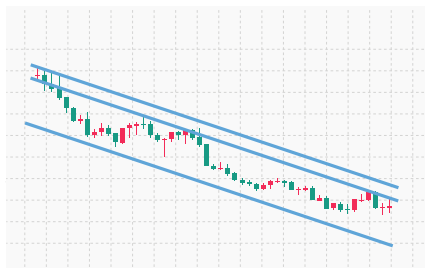
In this case, sell deals should be opened at the point where price chart and resistance line intersect.



Principle two:

After you plot trendlines across the shadows of candlesticks, plot another set of trendlines across closing and opening prices. This way, you will cut candlestick tops.

Use these methods to obtain accurate data for successful deal starting!



Monitoring the market

When building levels, it should be considered that the existing trend will not stay within these boundaries for a long time. The market is a living organism. Like all living things, it will occasionally surprise you by deviating from the expected trajectory.

Trends that last from a couple of months to a year are bound to change their trajectories eventually. This does not mean, however, that the trend itself ceases to exist — it is still there, simply proceeding at a different angle.

Let us imagine for a moment a ball that is kicked off the ground by a soccer player. The angle at which it flies will eventually change, and the ball will hit the grass on the field. It will bounce up and down, and then roll on the ground. Traders should keep an eye on trend trajectories and adjust their support and resistance lines accordingly.

That is how a trader finds better and more convenient entry points for a given time.

Changes in trend trajectories can be tracked by certain signals: false breakouts will occur, and price chart will puncture the trend line.

When a false breakout or a puncture occurs, a new minimum or maximum is formed. Use these points — adjust existing trendlines and plot new ones. This combination will give you ranges to open a trading position.

Be prepared for the fact that the price chart often fails to reach the trend line you built, or slightly exceeds it.

Occurrences like that might confuse a novice trader. But the constructed price ranges will help you spot the right time to open a deal.

What should you do if the price chart has broken through your trend line?

In this situation you might be asking yourself whether you should start the trade or abstain from opening your position. If you have identified the budding trend on an elder time interval and you trade in its direction, then the price chart that has a minor breakthrough through your trendline should not keep you from making the trade. Remember: trend is your friend. Follow it, and you will succeed in the end!

Analyzing world events

Let us dig a little deeper and see where future trends come from. After all, they do not just come out of the blue — they are created by a convergence of a few macroeconomic factors. These factors, in turn, have an impact on the redistribution of capital flows.

The primary “wave” is created by publication of macroeconomic indicators in reports from governments or independent organizations. These reports extensively describe the state of the national economy. Trade decisions can be made based on the performance of certain indicators.

These indicators are published at certain times and guide the market directly.

Economic calendars include large lists of regularly updated statistics arranged by day of the week and country. Information from various sectors of the economy is received daily; inflation data, industrial sector data, real estate market data, banking sector status data, etc. All that should be taken into consideration when you create your trading plan!

That is way too much data to keep in your head simultaneously — you'll just get tangled up in all these data strands and develop a passionate hatred for fundamental analysis.

To avoid confusion and be happy with your work, you should arrange the key marcoeconomic indicators in a chart. It will help you see the main tendencies in national economy to define the current trend and predict an upcoming one.

This way, we are about to make a smooth transition to fundamental analysis. It is vital for successful trading and reveals things the technical methods will not detect.

For instance, technical analysis is simply unable to account for global economic state; it also detects some indicators with a significant delay.

With a macroeconomic data chart at hand, you will put together a valuable puzzle of signals, indicators and fundamental analysis.

Only follow the most important statistical updates and pay attention to speeches given by heads of central banks. Read between the lines. In their reports and press conferences, heads of the central banks comment on current values of the main indicators: CPI (Consumer Price Index) — index of inflation, unemployment, GDP. From that, you can discern the course of action they are going to take and make a profit in your trades!

We have thus established that market trends are created with central banks' influences. Central Banks define the value of currencies, which influences the flows of capital, i.e. creates trends. Thus, to correctly estimate ongoing flows and predict possible changes, you should closely monitor the actions of Central Banks.

Central Banks draft their policies based on incoming macrostatistics. If the economy is performing poorly, Central Banks take measures to reinvigorate it, using the available instruments. The instruments include:

- increase or decrease in basic interest rate,
- changes in norms of compulsory bank reserves,
- unconventional stimulating measures. For instance, QE (quantitative easing) programs.

Let's take a closer look at the refinancing rate and QE programs. We will review the way Central Banks use monetary policy instruments.

We will take Federal Reserve System (FRS; American Central Bank) and how it handled the 2008 crisis as an example:

Major macroeconomic indicators from 2008 to 2009 showed very clearly that the US was in deep crisis. Those indicators are inflation data (CPI index), unemployment rate, and GDP.

- In October 2008, inflation (CPI index) dropped to a negative value of -0.1%. In Q2 2009, the main indicator of economic activity (GDP) also became negative and dropped as low as -6.4%.
- By October 2009, the unemployment rate was 10.2%, although it only amounted to 4.8% as recently as in February 2008.

To combat the crisis, FRS used an extremely low interest rate of 0-0.25%

for 7 years, and also applied a three-round QE program. In other words, FRS printed over 5 trillion dollars in three stages. When main interest rate was lowered to 0-0.25%, US dollar weakened against all currencies. Also note that global dollar decline was observed at each of the three stages of quantitative easing program.

Conclusion

You have to come prepared if you want to succeed at the exchange. Before putting real money into trading, analyze market charts. Observe the behaviour of prices, try plotting the support and resistance levels. Look for trends in graphs with different timeframes.

You'll find an optimal behaviour strategy for the market and make a better trading plan once you are fully immersed in these processes.

Follow your trade plan to make reasonable and systematic trades. Your skills will improve, and so will the quality of your trade.

You will learn to recognize when you made a mistake, and when it was market that deviated from the projected course, which is more often than not the case.

Regular practice will allow you to open and close more and more profitable trades.

Exchange offers ample financial opportunities, but it also requires commitment. Always keep in mind that you are solely and ultimately responsible for your trading result.

The good news is, all the profit you make also belongs to you alone!